



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements and Federal Single Audit Report

### Stevens County

**For the period January 1, 2014 through December 31, 2014**

**Published December 24, 2015**

**Report No. 1015509**





## Washington State Auditor's Office

December 24, 2015

Board of Commissioners  
Stevens County  
Colville, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on Stevens County's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the County's financial condition.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

### Stevens County January 1, 2014 through December 31, 2014

The results of our audit of Stevens County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

#### Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the County.

#### Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the County's compliance with requirements applicable to each of its major federal programs, with the exception of the CFDA 97.067 Homeland Security Grant Program on which we issued a qualified opinion on compliance with applicable requirements.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.665	Schools and Roads Cluster - Schools and Roads - Grants to States
97.067	Homeland Security Grant Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The County qualified as a low-risk auditee under OMB Circular A-133.

## SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

### Stevens County January 1, 2014 through December 31, 2014

**2014-001    The County did not have adequate internal controls to ensure it complied with time and effort requirements for its Homeland Security Grant Program.**

<b>CFDA Number and Title:</b>	97.067 Homeland Security Grant Program
<b>Federal Grantor Name:</b>	U.S. Department of Homeland Security
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Spokane County
<b>Pass-through Award/Contract Number:</b>	SDEM-1018, SDEM-1118, SDEM-1318, E15-010 and E12-247
<b>Questioned Cost Amount:</b>	\$121,025

#### *Description of Condition*

During fiscal years 2011, 2012, 2013 and 2014 the County spent \$263,996 in Homeland Security Grant Program funds. The grant expenditures for fiscal years 2011, 2012 and 2013 were not reported on the Schedule of Expenditures of Federal Awards (SEFA) in the applicable fiscal year. These expenditures were included in our audit and reported on the SEFA for fiscal year 2014. We reported internal control deficiencies for financial statement reporting, including the preparation of the SEFA, in Finding 2014-002.

The objective of the program is to improve and significantly enhance the ability of the Nation to prevent, deter, respond to and recover from, threats and incidents of terrorism and to enhance regional preparedness.

We audited the County's internal controls over payroll to determine whether salaries and benefits charged to the grant were supported by time and effort documentation as required by federal regulations. Depending on the number and type of activities employees work, time and effort documentation can be documented on a semi-annual certification or a monthly personnel activity report, such as a timesheet.

Our audit found the County did not obtain monthly time and effort documentation for 14 employees whose positions were partially paid from the Homeland Security Grant Program. However, the County had alternate documentation to support overtime costs charged to the grant, which was approved by an external agency.

We consider this internal control deficiency to be a material weakness.

### ***Cause of Condition***

The County does not have a process in place to obtain the required monthly time and effort documentation. The County was unaware it was required to obtain time and effort documentation for employees whose payroll costs are paid by federal funds.

### ***Effect of Condition and Questioned Costs***

Without proper time and effort records, the County is unable to substantiate the accuracy of \$168,258 of salary and benefits charged to its Homeland Security Grant Program in the manner required by the grantor. We were able to obtain alternate documentation that was approved by an external agency to support overtime costs of \$47,233 charged to the grant. As a result, we are not questioning these costs. However, we were unable to obtain alternate documentation that supported \$121,025 in payroll costs charged to the program. As a result, we are questioning these costs.

### ***Recommendation***

We recommend the County establish and follow time and effort internal controls to ensure it meets federal requirements for documentation of all salary and benefit costs charged to grants.

### ***County's Response***

*We recognize our shortcomings, have made some personnel changes and will better document all wage and benefit activities should this type of funding become available in the future.*

### ***Auditor's Remarks***

We wish to thank the County's staff and management for their cooperation and assistance during our audit. We look forward to reviewing the County's corrective action during the next audit.

## ***Applicable Laws and Regulations***

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300 – Auditee Responsibilities, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

**.11** For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows: . . .

**Deficiency in internal control over compliance.** A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively. . .

**Material weakness in internal control over compliance.** A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will



not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

**Reasonably possible.** The chance of the future event or events occurring is more than remote but less than likely.

**Remote.** The chance of the future event or events occurring is slight.

**Probable.** The future event or events are likely to occur. . .

**Significant deficiency in internal control over compliance.**

A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), Attachment B, Section 8(h), states in part:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after the fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes. . .

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Stevens County January 1, 2014 through December 31, 2014

#### **2014-002 County's internal controls over financial statement preparation are inadequate to ensure accurate reporting.**

##### ***Background***

County elected officials and appointed management are responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affected the County's ability to produce reliable financial statements.

All local governments in Washington that spend federal funds are required to prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of the annual financial report. U.S. Office of Management and Budget (OMB) Circular A-133 requires grantees to identify, in its accounts, all Federal program awards received and expended and to report all Federal awards expended on the SEFA each fiscal year.

The prior five audits identified control deficiencies in the financial statement preparation process that were reported to management.

##### ***Description of Condition***

Our audit process identified the following deficiencies in internal controls that, when taken together, represent a significant deficiency:

- Employees responsible for preparation of the financial statements lacked the technical knowledge of reporting requirements prescribed in the Budget, Accounting and Reporting System (BARS) manual.
- The County's annual report preparation process did not include controls that ensure amounts reported in the financial statements agree to the underlying accounting records.
- Although the County has a process for reviewing the prepared financial statements, departments did not work collaboratively to ensure the financial statements were accurate in all respects.

- The County's internal control process for preparing and reviewing the Schedule of Expenditures of Federal Awards (SEFA) was not effective.

### *Cause of Condition*

Although the County has taken steps to address some concerns noted during the prior audit, it has not fully developed internal controls to ensure complete and accurate financial statements. The County is required to prepare and submit an annual financial report each year, but has not developed a proper timeline and dedicated resources to ensure the financial statement, notes and supplemental schedules are prepared timely complete and accurate. Although the County's control process provides that the County Treasurer should perform a second review of the financial statements for accuracy, the County Auditor did not provide enough time to ensure this critical control occurred before filing the annual report.

The County's established controls for SEFA preparation assume the grant information provided by departments to the County Auditor is accurate without proper monitoring and review controls. However, some department base reported information on revenues received instead of when the related federal expenditures were incurred as required.

### *Effect of Condition*

Delayed and inaccurate financial reports limit access to financial information used by County officials, the public, state and federal agencies and other interested parties. As a result of the control deficiencies and effects identified below, the County missed its federal single audit deadline. In addition, these conditions delayed the audit process and resulted in increased audit costs. We noted:

- Both the County Auditor and County Treasurer prepared a Schedule of Cash Activity but the schedules did not agree and the differences were not resolved so it could be used as a tool to accurately prepare the annual report.
- The County's Fiduciary Fund Resources and Uses Arising from Cash Transactions submitted for audit included special purpose districts activities causing the statement to be overstated by approximately \$15.8 million.
- Non-operating expenditures were overstated by \$29,696 for Fund 501, Equipment Rental and Revolving Funds due to the County reporting clearing funds.

- The amounts reported on the Schedule of Liabilities were inaccurate overstating four amounts by a total of \$35,574.
- The Notes to the Financial Statements improperly reported operating transfers included an inter-fund loan of \$475,337 and excluding a transfer of \$35,406.
- The County failed to submit its financial statements on time as required by state law, RCW 43.09.230. For the last three years, the statements were submitted more than 30 days late.
- The County submitted a Schedule of Expenditures of Federal Awards based upon revenues, rather than expenditures as required causing it to be understated by \$85,479.
- The County failed to submit the Notes to the Schedule of Expenditures of Federal Awards as required by the BARS manual.

These deficiencies in internal controls make it reasonably possible that material misstatements could continue to occur and not be prevented or detected by the County in a timely manner.

### ***Recommendation***

We recommend the County:

- Provide adequate training to employees responsible for financial reporting to ensure compliance with reporting requirements.
- Develop a monitoring control to ensure the financial statements agree to the underlying accounting records
- Ensure departments responsible for financial statement preparation collaborate to produce accurate financial reports.
- Provide adequate time and resources to allow a detailed review of the financial statements by a person knowledgeable of BARS reporting requirements.
- Improve the SEFA preparation process to ensure the schedule is prepared according to OMB and BARS guidance.

### ***County's Response***

*We recognize our shortcomings and are striving to improve the methods of information gathering and calculations to produce a better product. We recognize*

*the importance to get proper BARS manual training to help us create an accurate report and will establish a better completion of task deadline schedule so that a proper review is completed in time to meet the filing deadline in the future.*

### ***Auditor's Remarks***

We wish to thank the County's staff and management for their cooperation and assistance during our audit. We look forward to reviewing the County's corrective action during the next audit.

### ***Applicable Laws and Regulations***

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart E, Section 500, states in part:

(a) General. The audit shall be conducted in accordance with GAGAS. . .

Subpart B, Section 205, states in part:

(a) Determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and, the period when insurance is in force.

Subpart C, Section 300, states in part:

The auditee shall. . .

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award

number and year, name of the Federal agency, and name of the pass-through entity.

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §\_\_\_.310 . . .

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

**Material weakness.** A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

RCW 43.09.200 Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

RCW 43.09.230 Local government accounting – Annual reports – Comparative statistics, states:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized; and also: (1) A statement of all costs of ownership and operation, and of all income, of each and every public service industry owned and operated by a local government; (2) a statement of the entire public debt of every local government, to which power has been delegated by the state to create a public debt, showing the purpose for which each item of the debt was created, and the provisions made for the payment thereof; (3) a classified statement of all receipts and expenditures by any public institution; and (4) a statement of all expenditures for labor relations consultants, with the identification of each consultant, compensation, and the terms and conditions of each agreement or arrangement; together with such other information as may be required by the state auditor.



*Budget Accounting and Reporting System (BARS) Manual; Accounting; Accounting Principles and Internal Control; Internal Control states in part:*

### Purpose and Definition of Internal Controls

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as "management" throughout the rest of this section.

### Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting. . .

Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules. . .

### **Controls over Financial Reporting:**

3.1.3.140 This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

3.1.3.150 In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor’s Office or standard setting bodies.
- Correctly accounting for all financial events – Controls should ensure that:
  - Only valid transactions are recorded and reported.
  - All transactions occurred during the period are recorded and reported.
  - Transactions are recorded and reported at properly valued and calculated amounts.
  - Recorded and reported transactions accurately reflect legal rights and obligations.
  - Transactions are recorded and reported in the account and fund to which they apply.
  - Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

3.1.3.160 Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Stevens County  
January 1, 2014 through December 31, 2014**

Board of Commissioners  
Stevens County  
Colville, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Stevens County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's financial statements, and have issued our report thereon dated October 15, 2015.

We issued an unmodified opinion on the fair presentation of the County's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the County using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of County's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-002 that we consider to be significant deficiencies.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## COUNTY'S RESPONSE TO FINDINGS

The County's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

October 15, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**Stevens County  
January 1, 2014 through December 31, 2014**

Board of Commissioners  
Stevens County  
Colville, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of Stevens County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The County's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance

with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the County's compliance.

### **Basis for Qualified Opinion on CFDA 97.067 Homeland Security Grant Program**

As described in Finding 2014-001 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the County did not comply with requirements regarding its Homeland Security Grant Program for allowable costs/cost principles. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to the program.

### **Qualified Opinion on CFDA 97.067 Homeland Security Grant Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Homeland Security Grant Program for the year ended December 31, 2014.

### **Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the accompanying Federal Summary for the year ended December 31, 2014.

### **County's Response to Findings**

The County's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

### County's Response to Findings

The County's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

October 15, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Stevens County January 1, 2014 through December 31, 2014

Board of Commissioners  
Stevens County  
Colville, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Stevens County, Washington, for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's financial statements, as listed on page 31.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, Stevens County has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Stevens County, for the year ended December 31, 2014, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the County used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

### **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Stevens County, as of December 31, 2014, or the changes in

financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Other Matters**

### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015 on our consideration of the County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

October 15, 2015

## **FINANCIAL SECTION**

### **Stevens County January 1, 2014 through December 31, 2014**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2014  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014  
Notes to Financial Statements – 2014

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2014  
Schedule of Expenditures of Federal Awards – 2014  
Notes to the Schedule of Expenditures of Federal Awards – 2014

**Stevens County**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2014**

		Total for All Funds (Memo Only)	001 CURRENT EXPENSE	106 PERFORMING ARTS TOURISM ETC
<b>Beginning Cash and Investments</b>				
30810	Reserved	13,888,605	172,389	62,754
30880	Unreserved	2,010,689	1,837,829	-
388 & 588	Prior Period Adjustments, Net	15,013	1	(1)
<b>Operating Revenues</b>				
310	Taxes	15,215,224	8,376,935	30,663
320	Licenses and Permits	328,492	323,862	-
330	Intergovernmental Revenues	12,172,357	3,701,343	-
340	Charges for Goods and Services	14,926,800	1,541,463	-
350	Fines and Penalties	547,485	538,707	-
360	Miscellaneous Revenues	3,978,722	608,705	-
Total Operating Revenues:		47,169,080	15,091,015	30,663
<b>Operating Expenditures</b>				
510	General Government	9,399,480	7,028,991	-
520	Public Safety	7,483,593	5,595,085	-
530	Utilities	1,442,850	-	-
540	Transportation	12,284,071	-	-
550	Natural and Economic Environment	1,280,556	790,090	-
560	Social Services	6,690,854	684,660	-
570	Culture and Recreation	417,733	288,625	20,613
Total Operating Expenditures:		38,999,137	14,387,451	20,613
<b>Net Operating Increase (Decrease):</b>		<b>8,169,943</b>	<b>703,564</b>	<b>10,050</b>
<b>Nonoperating Revenues</b>				
370-380, 395 & 398	Other Financing Sources	674,466	15,515	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	1,317,560	347,593	-
Total Nonoperating Revenues:		1,992,026	363,108	-
<b>Nonoperating Expenditures</b>				
580, 596 & 599	Other Financing Uses	527,503	8,106	-
591-593	Debt Service	703,211	-	-
594-595	Capital Expenditures	4,502,351	53,142	-
597	Transfers-Out	1,317,560	524,946	25,000
Total Nonoperating Expenditures:		7,050,625	586,194	25,000
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>3,111,344</b>	<b>480,478</b>	<b>(14,950)</b>
<b>Ending Cash and Investments</b>				
50810	Reserved	15,888,488	211,579	47,803
50880	Unreserved	3,137,163	2,279,118	-



<b>107 CRIME VICTIMS AND WITNESS FUND</b>	<b>110 ROAD FUND</b>	<b>115 PATHS AND TRAILS</b>	<b>121 HOMELESSNESS</b>	<b>122 NEW ALLIANCE COUNSELING SERVS</b>	<b>123 VERY LOW INCOME HOUSING</b>
43,234	3,919,915	223,547	-	3,263,754	349,765
-	-	-	-	-	-
1	-	-	-	-	(2)
-	5,369,927	-	-	190,998	-
-	4,630	-	-	-	-
-	6,739,588	18,540	-	876,098	-
23,170	35,341	-	194,869	4,897,661	39,752
-	-	-	-	-	-
-	62,250	-	-	117,431	-
23,170	12,211,736	18,540	194,869	6,082,188	39,752
4,055	34,882	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	7,716,347	-	-	-	-
-	-	-	-	165,163	2,516
-	-	-	82,575	5,881,784	-
-	-	-	-	-	-
4,055	7,751,229	-	82,575	6,046,947	2,516
19,115	4,460,507	18,540	112,294	35,241	37,236
-	-	-	-	15,493	-
-	-	-	-	-	-
-	-	-	290,108	-	-
-	-	-	290,108	15,493	-
-	-	-	-	2,327	-
-	-	-	-	15,022	-
-	2,959,672	-	-	70,000	-
-	-	-	-	-	290,108
-	2,959,672	-	-	87,349	290,108
19,115	1,500,835	18,540	402,402	(36,615)	(252,872)
62,350	5,420,750	242,087	402,402	3,227,139	96,891
-	-	-	-	-	-

124 VETERANS RELIEF FUND	125 LAW LIBRARY	126 AUDITORS O&M FUND	127 ELECTIONS	128 NORTHEAST WASHINGTON FAIR	129 TREASURERS O&M
37,316	32,426	96,111	-	4,488	44,259
-	-	-	56,693	-	-
-	1	1	-	-	(1)
43,652	-	-	-	-	-
-	-	-	-	-	-
-	-	48,844	-	37,118	-
-	11,277	24,932	-	36,158	75,859
-	-	-	-	-	-
111	272	-	-	8,780	-
43,763	11,549	73,776	-	82,056	75,859
-	-	44,437	-	-	32,478
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
41,835	-	-	-	-	-
-	18,358	-	-	77,137	-
41,835	18,358	44,437	-	77,137	32,478
1,928	(6,809)	29,339	-	4,919	43,381
-	-	-	-	6,250	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	6,250	-
-	-	-	-	6,270	149
-	-	-	-	-	-
-	-	-	-	-	-
-	-	30,000	56,693	-	23,556
-	-	30,000	56,693	6,270	23,705
1,928	(6,809)	(661)	(56,693)	4,899	19,676
39,244	25,618	95,451	-	-	63,934
-	-	-	-	9,387	-

<b>130 WEED CONTROL</b>	<b>131 LOON LAKE MNGT DIST - 2013- 802</b>	<b>132 WRIA 59</b>	<b>133 FAMILY LAW COURT FACILITATOR</b>	<b>136 LOON LAKE MNGT DIST 2- 2008</b>	<b>137 LITTLE PO LK MNGT DIST 1- 2008</b>
344,610	-	-	15,250	486	12,552
-	-	-	-	-	-
-	-	-	1	-	1
-	-	-	-	-	-
-	-	-	-	-	-
565	-	4,875	-	-	-
3,358	-	-	5,849	-	-
-	122	-	-	162	51
271,372	82,791	-	-	1,908	590
275,295	82,913	4,875	5,849	2,070	641
-	-	-	11,567	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
193,069	76,901	-	-	1,605	2,695
-	-	-	-	-	-
-	-	-	-	-	-
193,069	76,901	-	11,567	1,605	2,695
<b>82,226</b>	<b>6,012</b>	<b>4,875</b>	<b>(5,718)</b>	<b>465</b>	<b>(2,054)</b>
-	-	-	-	-	-
-	-	-	-	-	-
-	10,000	-	-	-	-
-	10,000	-	-	-	-
51	-	-	-	-	-
-	-	-	-	-	-
25,274	-	-	-	-	-
-	-	-	-	-	10,000
25,325	-	-	-	-	10,000
<b>56,901</b>	<b>16,012</b>	<b>4,875</b>	<b>(5,718)</b>	<b>465</b>	<b>(12,054)</b>
401,511	16,012	4,875	9,533	951	499
-	-	-	-	-	-

<b>138 DEER LAKE MNGT DIST #1- 2011</b>	<b>140 DRUG INVESTIGATION FUND</b>	<b>141 SHERIFF STATE DRUG FORFEITURE</b>	<b>142 SHERIFF FEDERAL DRUG FORFEITUR</b>	<b>145 EMERGENCY COMMUNICATIO NS</b>	<b>150 INMATE WELFARE FUND</b>
15,854	154,613	35,468	54,390	85,179	2,910
-	-	-	-	-	-
2	(1)	-	-	(1)	-
-	-	-	-	478,864	-
-	-	-	-	-	-
-	-	-	-	590,437	-
-	-	-	-	489,248	3,737
145	8,298	-	-	-	-
29,626	-	3,730	27,304	26,526	1,685
29,771	8,298	3,730	27,304	1,585,075	5,422
-	-	-	-	-	-
-	12,641	-	-	1,174,312	7,068
-	-	-	-	-	-
-	-	-	-	-	-
28,407	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
28,407	12,641	-	-	1,174,312	7,068
<b>1,364</b>	<b>(4,343)</b>	<b>3,730</b>	<b>27,304</b>	<b>410,763</b>	<b>(1,646)</b>
-	-	-	-	476,112	204
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	476,112	204
-	-	-	-	125	204
-	-	-	-	-	-
-	-	-	-	250,440	-
-	-	-	-	35,406	-
-	-	-	-	285,971	204
<b>1,364</b>	<b>(4,343)</b>	<b>3,730</b>	<b>27,304</b>	<b>600,904</b>	<b>(1,646)</b>
17,220	150,269	39,198	81,694	-	1,264
-	-	-	-	686,082	-

155 COUNTY VEHICLE REPLACEMENT	160 TRIAL COURT IMPROVEMENT FUND	165 REET ELECTRONIC TECHNOLOGY	201 CURRENT EXPENSE GO BOND	305 GENERAL CAPITAL PROJECTS FUND	306 PUBLIC FACILITIES (REF 49)
-	59,107	31,868	119,817	342,692	544,479
-	-	-	-	-	-
-	(1)	1	-	(1)	-
-	-	-	-	331,855	392,330
-	-	-	-	-	-
-	23,922	8,689	-	40,000	-
-	-	-	24,348	-	-
-	-	-	-	-	-
151	-	-	20	-	-
151	23,922	8,689	24,368	371,855	392,330
-	11,576	6,987	-	7,365	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	20,110
-	-	-	-	-	-
-	-	-	-	-	13,000
-	11,576	6,987	-	7,365	33,110
151	12,346	1,702	24,368	364,490	359,220
-	-	-	-	1,670	-
-	-	-	-	-	-
210,000	-	-	424,453	-	35,406
210,000	-	-	424,453	1,670	35,406
-	-	-	-	10,324	-
-	-	-	535,659	-	-
206,397	13,397	-	-	91,452	111,453
-	-	-	-	81,601	205,743
206,397	13,397	-	535,659	183,377	317,196
3,754	(1,051)	1,702	(86,838)	182,783	77,430
3,754	58,055	33,571	32,979	525,474	621,909
-	-	-	-	-	-

<b>405 SHERIFFS AMBULANCE FUND</b>	<b>410 SOLID WASTE</b>	<b>501 EQUIPMENT RENTAL &amp; REVOLV FUND</b>	<b>510 INFORMATION SERVICES</b>	<b>520 INSURANCE SERVICE FUND</b>
318,589	3,139,017	-	-	361,766
-	-	104,692	11,475	-
(2)	250	-	14,764	-
-	-	-	-	-
-	-	-	-	-
1,723	80,615	-	-	-
763,393	1,877,734	2,132,942	1,800,468	945,241
-	-	-	-	-
23,522	104,533	2,593,465	13,950	-
788,638	2,062,882	4,726,407	1,814,418	945,241
-	-	-	1,333,679	883,463
694,487	-	-	-	-
-	1,442,850	-	-	-
-	-	4,567,724	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
694,487	1,442,850	4,567,724	1,333,679	883,463
<b>94,151</b>	<b>620,032</b>	<b>158,683</b>	<b>480,739</b>	<b>61,778</b>
4,884	110,082	33,865	415	9,976
-	-	-	-	-
-	-	-	-	-
4,884	110,082	33,865	415	9,976
4,798	494,256	743	150	-
-	145,455	7,075	-	-
2,052	84,983	333,682	300,407	-
34,507	-	-	-	-
41,357	724,694	341,500	300,557	-
<b>57,678</b>	<b>5,420</b>	<b>(148,952)</b>	<b>180,597</b>	<b>71,754</b>
376,265	3,144,687	-	-	433,520
-	-	(44,260)	206,836	-

**Stevens County**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2014**

		<b>Total for All Funds (Memo Only)</b>	<b>621 GENERAL TRUST ACCOUNTS</b>	<b>631 COUNTY TAX REFUND</b>	<b>675 CITY REMITTANCE</b>
308	Beginning Cash and Investments	635,614	256,783	16	9,715
388 & 588	Prior Period Adjustments, Net	1	-	-	1
310-360	Revenues	199	14	-	185
380-390	Other Increases and Financing Sources	21,302,648	7,386,679	-	1,785,513
510-570	Expenditures	-	-	-	-
580-590	Other Decreases and Financing Uses	21,141,203	7,359,780	-	1,783,423
Net Increase (Decrease) in Cash and Investments:		161,644	26,913	-	2,275
508	Ending Cash and Investments	797,259	283,696	16	11,991

		<b>695 ADVANCE TAXES</b>	<b>697 STATE REMITTANCE FUND</b>	<b>698 TAX COLLECTION SUSPENSE</b>	<b>699 TREASURERS TRUST FUND</b>
308	Beginning Cash and Investments	578	116,540	10,777	241,205
388 & 588	Prior Period Adjustments, Net	1	(1)	-	-
310-360	Revenues	-	-	-	-
380-390	Other Increases and Financing Sources	6,592	11,995,558	(10,777)	139,083
510-570	Expenditures	-	-	-	-
580-590	Other Decreases and Financing Uses	-	11,961,275	-	36,725
Net Increase (Decrease) in Cash and Investments:		6,592	34,283	(10,777)	102,358
508	Ending Cash and Investments	7,171	150,822	-	343,563

## STEVENS COUNTY

### NOTES TO FINANCIAL STATEMENTS January 1, 2014 to December 31, 2014

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Stevens County was incorporated on January 20, 1863 from Walla Walla County, with the boundaries lying west of the present county and operates under the laws of the state of Washington applicable to a county government. Stevens County was named after Issac' Stevens, Washington's first territorial governor. At the time Stevens County consisted of most of Eastern Washington making it one of Washington's largest counties. On January 19, 1864 the County of Spokane was annexed from Stevens County by the Legislative Assembly of the Territory of Washington. The County is a general-purpose government and provides the following services to its constituents: general-purpose government, security of persons and property, physical environment, transportation, economic development, mental and physical health and culture and recreation and is supported primarily through local taxes, federal and state resources, fines and fees for services.

Stevens County reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of the Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

#### A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types used:

##### GOVERNMENTAL FUND TYPES:

##### General (Current Expense) Fund

This fund is the primary operating fund of the County. It accounts for all financial resources except those required or elected to be accounted for in another fund.

##### Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the County.

##### Debt Service Funds

These funds account for specific revenues that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.



### Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

### PROPRIETARY FUND TYPES:

#### Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

#### Internal Service Funds

These funds account for operations that provide goods and services to other departments or funds of the County on a cost-reimbursement basis.

### FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the County in a trustee capacity or as an agent on behalf of others.

#### Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

#### Agency Funds

These funds are used to account assets that the County holds for others in a custodial capacity.

### B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the County also recognizes expenditures paid during the twenty days after the close of the fiscal year for claims incurred during the previous period.

### C. Budgets

The County adopts annual appropriated budgets for all funds presented on statement C-4. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for those funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance Under (Over)
Current Expense:			
Gen. Gov.	\$ 717,808	\$ 702,372	\$ 15,436
Accum. Emp. Sev.	70,000	57,644	12,356
Assessor	832,000	794,721	37,279
Auditor	635,000	626,732	8,268
CASA	165,250	153,752	11,498
Clerk – S.C.	346,600	341,651	4,949
Commissioners	430,000	428,626	1,374
Coroner	176,900	170,231	6,669
District Court	605,000	581,536	23,464
Elections	287,300	277,617	9,683
WSU Extension	138,434	123,161	15,273
Facilities	481,900	470,996	10,904
Fairgrounds Facilities	178,500	165,644	12,856
Indigent Legal Defense	492,000	487,192	4,808
Juvenile	970,000	906,670	63,330
LEOFF Retirement	60,000	42,740	17,260
Land Service	691,400	683,152	8,248
Prosecuting Attorney	1,377,800	1,328,175	49,625
Pass-thru Grants/Payments	434,510	423,963	10,547
Public Health	514,878	514,844	34
Sheriff	3,675,494	3,381,549	293,945
Sheriff Emg. Services	209,400	200,867	8,533
Sheriff Jail	1,171,500	1,161,787	9,713
Superior Court	553,000	522,712	30,288
Treasurer	<u>442,000</u>	<u>425,311</u>	<u>16,689</u>
Total Current Expense	15,656,674	14,973,645	683,029
Performing Arts	50,000	45,613	4,387
Crime Victims	25,200	4,055	21,145
Road	12,295,400	10,710,901	1,584,499
Paths & Trails	-	-	-
Homelessness	237,500	82,575	154,925
NEW Alliance C.S.	6,225,576	6,134,295	91,281
Low-Income Housing	336,608	292,624	43,984
Veterans Relief	48,000	41,835	6,165
Law Library	21,300	18,358	2,942
Auditor O&M	174,705	74,437	100,268
Elections	56,693	56,693	-
N.E.W. Fair	84,888	83,407	1,481
Treasurer's O&M	64,529	56,183	8,346
Weed Control	266,366	218,394	47,972
Little P.O. L. M 1-2013	35,000	16,824	18,176
Loon .Lake L. M. 2-2013	71,000	60,077	10,923
Family Law Facilitator	14,000	11,567	2,433
Loon Lake L. M. 2-2008	4,486	1,605	2,881
Little P. O. L. M. 1-2008	13,552	12,695	857
Deer Lake L. M. 1-2011	45,854	28,407	17,447
Drug Investigation	115,000	12,641	102,359
State Drug Forfeiture	15,000	-	15,000
Federal Drug Forfeiture	54,376	-	54,376
Emergency Comm.-911	1,630,191	1,460,283	169,908
Inmate Welfare	12,910	7,271	5,639
County Vehicle Replacement	210,000	206,397	3,603
Trial Court Improvement	39,000	24,973	14,027
REET Electronic Technology	7,000	6,987	13
C.E. G.O. Bond-1	523,595	535,659	(12,064)
Capital Projects	255,000	190,742	64,258
Public Facilities	360,000	350,307	9,693
Sheriff's Ambulance	799,221	735,844	63,377
Solid Waste - 2	2,698,122	2,167,545	530,577
Equipment Rental - 3	5,219,011	4,909,224	309,787
Informational Service	1,733,700	1,634,237	99,463
Insurance Service	<u>918,694</u>	<u>883,463</u>	<u>35,231</u>
Totals	<u>\$50,318,151</u>	<u>\$46,049,762</u>	<u>\$ 4,268,389</u>

1. The County sells fish from the hatchery to the state in lieu of bond payments. During the year the County was unaware of additional fish sales which created an additional debt payment.
2. Reduced budget and actual due to elimination of transfer between Solid Waste, Landfill Closure and Landfill Post-Closure in the amount of \$95,807.3.
3. Reduced budget by elimination of internal non-revenue and non-expenditures of payroll and benefits in the amount of \$5,850,000.

Budgeted amounts are authorized to be transferred between (departments within any fund/object classes within departments); however any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the county legislative body.

D. Cash and Investments

See Note 2 - *Deposits and Investments*

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon separation or retirement.

Sick leave may be accumulated up to 150 working days. Upon retirement or death, not separation, an employee will be compensated for up to 24 days of unused sick leave. Certain employment contracts for department heads have additional provisions based on the type of termination. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 5 – Debt Service Requirements

H. Other Financing Sources and Uses

The County's Other Financing Sources and Uses consist of:

	<u>Source</u>	<u>Use</u>
To Current Expense from:		
Public Facilities (.09)	\$ 205,743	
Auditor's O&M	30,000	
Treasurer's O&M	23,556	
Performing Arts & Tourism	25,000	
Elections	56,692	
Capital Projects	<u>6,601</u>	
Total Current Expense Sources	\$ <u>347,592</u>	
To Homelessness Fund from:		
Low-Income Housing Fund	\$ <u>290,108</u>	
To Little Pend Oreille Lake Management 1-2013 from:		
Little Pend Oreille Lake Management 2008-02	\$ <u>10,000</u>	
To County Vehicle Replacement Fund from:		
Current Expense Fund	\$ <u>210,000</u>	

To G.O. Bond from:		
Sheriff Ambulance	\$ 34,507	
Capital Projects	75,000	
Current Expense	<u>314,947</u>	
Total G.O. Bond Sources	\$ <u>424,454</u>	
To Public Facilities (.09) from 911 Communications	\$ <u>35,406</u>	
From Current Expense Fund to:		
County Vehicle Replacement	\$ 210,000	
G.O. Bond	<u>314,947</u>	
Total Current Expense Use	\$ <u>524,947</u>	
From Performing Arts & Tourism	\$ <u>25,000</u>	
From Low-Income Housing to Homelessness	\$ <u>290,108</u>	
From L.P.O. Lake Management 2008-02 to 01-2013	\$ <u>10,000</u>	
From Auditor's O&M to Current Expense	\$ <u>30,000</u>	
From Treasurer's O&M to Current Expense	\$ <u>23,556</u>	
From Elections	\$ <u>56,692</u>	
From 911 Communications to Public Facilities (.09)	\$ <u>35,406</u>	
From Capital Projects to:		
Current Expense	\$ 6,601	
G.O. Bond Fund	<u>75,000</u>	
Total Capital Projects Use	\$ <u>81,601</u>	
From Public Facilities (.09) to Current Expense	\$ <u>205,743</u>	
From Sheriff Ambulance to G.O. Bond	\$ <u>34,507</u>	
Total Transfers In and Out	\$ <u>1,317,560</u>	\$ <u>1,317,560</u>

#### I. **RISK MANAGEMENT**

Stevens County is a member of the Washington Rural Counties Insurance Pool (WRCIP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1998, when three counties in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2014 there are eight counties in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, are included to fit members' various needs.

The program acquires insurance through their Administrator, Canfield. Liability coverage is purchased to an aggregate limit of \$45,000,000 with a self-insured retention of \$50,000. Members are responsible for the first \$1,000 to \$10,000 deductible for each claim, while the program is responsible for the \$50,000 self-insured retention. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$50,000 self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$731,250.

Property insurance is subject to a per-occurrence self insured retention of \$25,000. Members are responsible for the first \$1,000 to \$10,000 per occurrence deductible. The program bears the \$25,000 self insured retention, in addition to the deductible.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, (\$5,000 for sewer plants). Members are responsible for the full deductible amount of each claim. There is no program self insured retention on this coverage.

Members contract to remain in the program for a minimum of one year, and must give notice prior to December 31 before terminating participation the following December 1. The Interlocal Governmental Agreement is renewed automatically each year. Even after termination, a member remains responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The program is governed by an eight-member Board of Directors elected by each member's designated voting representative. It is felt the individual counties are best able to select their own representatives to manage their insurance association. On July 18, 2014 the Board passed a resolution changing the WRCIP's renewal date from September 1, to December 1 beginning with the 2014-15 policy term. An endorsement was added to the 2013-14 Memorandum of Coverage, extending coverage to December 1, 2014. Premiums were prorated for the extension period. Invoices and certificates were issued.

The program is funded by its member participants and has no employees. Claims are filed by members with Canfield, who has been contracted to perform program administration, claims adjustment administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the policy year beginning September 1, 2013 and ending December 1, 2014 were \$641,734.76

Stevens County maintains insurance against most normal hazards. Certain departments within the county self-insure the physical damage on their fleet vehicles. However, there are provisions in the policy to cover catastrophic losses should a large group of vehicles and inland marine equipment be lost.

Stevens County, through the Insurance Service Fund, reimburses the State of Washington for all allowable unemployment claims paid out to eligible former employees. The amount disbursed in 2014 for unemployment claims was \$28,435. In 2014, \$110,751, representing 1% of each department's payroll, was collected by the Insurance Service Fund. On December 31, 2013 an accumulated reserve for future claims amounted to \$372,732. The entire fund balance of the Insurance Service fund, including the unemployment reserve is \$361,766. There is \$13,443 in other claims pay-outs that will be recovered from the County Departments in 2014.

J. Reserved Portion of ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the County Legislative authority. When expenditures that meet restrictions are incurred, the County intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of the following:

Current Expense Fund (001-999-010) consists of:

State Vessel Registration fees that are dedicated to boating law enforcement that have been received, but not spent as of December 31, 2013 and December 31, 2014 in the amount of \$57,889 and \$39,524.

Reserve of \$114,500 on December 31, 2013 and \$171,750 on December 31, 2014 to prepare for the deputy sheriffs currently working under a three-year federal grant that began in 2013 that are required to be county funded in the year 2016.

Beginning in 2014 any unspent contributions for fireworks are carried forward to the next year. In 2014 \$4,705 was raised and \$4,400 spent creating a carry forward of \$305.

Performing Arts & Tourism (106-999-010) \$47,803 reserved by statute related to limited use of Lodging tax proceeds.

Crime Victims & Witness (107-999-010) \$62,350 reserved by statute related to court fees dedicated to crime victims and witnesses.

Road (110-999-010) \$5,420,750 reserved by statute related to road construction and maintenance.

Paths & Trails (115-999-030) \$242,087 reserved by statute to fund pathways for non-vehicle traffic.

Homelessness (121-999-010) \$402,402 reserved by statute related to recorded document surcharge to relieve homelessness.

N.E.W. Alliance Counseling Services Fund (122-000-010) \$3,227,139 includes the advanced working capital provided by the Department of Social & Health Services. \$57,835 is the statutory requirement for Chemical Dependency Services and \$60,193 is the statutory requirement for Developmental Disabilities Services.

Very-Low Income Housing (123-999-010) \$96,891 reserved by statute to provide facilities and assistance for low-income citizens in need of housing. Funded by recorded document surcharge.

Veteran's Relief (124-999-010) \$39,244 reserved by statute requiring a portion of real property tax revenue be available to assist honorable discharged veterans in need.

Law Library (125-999-010) \$25,618 reserved by statute to maintain library of law reference materials. It is funded by required court fees.

Auditor O&M (126-999-010) \$95,451 reserved by statute to maintain and preserve county documents. It is funded by recorded document surcharges.

Treasurer's O&M (129-999-010) \$63,934 reserved by statute related to property foreclosure. Funded by foreclosure fees.

Weed Control (130-999-010) \$401,511 reserved by statute to address noxious weed control in the county. Funded by special assessment of property owners. That assessment was suspended for the year of 2015.

Management Districts for three county lakes were formed to combat the invasion of noxious plants. The lake property owners vote on an annual assessment method, amount and term.

Deer Lake (formed in 2011)	\$17,220
Little Pend Oreille (formed in 2008 and 2013)	499
Loon Lake (formed in 2008 and 2013)	<u>16,963</u>
Total Reserved	<u>\$34,682</u>

Family Law Facilitator (133-999-010) \$9,533 reserved by statute to facilitate the resolution of family law matters. Funded by required superior court fees.

Drug Investigation (140-999-010) \$150,269 reserved by statute and funded by court fees to combat only drug related crimes.

State (141-999-010) and Federal Drug Forfeiture (142-999-010) \$39,198 and \$81,694 respectively reserved by statute to address drug specific crime prevention. Funded by state and federal proceeds from drug related convictions.

Inmate Welfare (150-999-010) \$1,264 reserved for products and services available to jail inmates.

County Vehicle Replacement (155-999-010) \$3,754 reserved by County Commissioner action to manage the replacement of vehicles associated with the County Current Expense fund.

Trial Court Improvement (160-999-010) \$58,055 reserved by statute for the maintenance and improvement of district and superior court operations. Funded by the state.

R.E.E.T Electronic Technology (165-999-010) \$33,571 reserved by statute to improve the receipting of state and local real estate excise tax. Funded by a portion of the real estate excise tax assessments.

Current expense G.O. Bond (201-999-040) \$ 32,979 reserved for the principal and interest due on the county's long-term debt obligations. Funded by state real estate excise tax designated for capital projects and transfers from other county funds.

Capital Projects (305-999-010) \$525,474 reserved by statute for the capital needs of the county. Funded by a portion of the state real estate excise tax designated only for capital projects.

Public Facilities (306-999-010) \$621,909 reserved by statute for public facility projects and activities related to county economic development. Funded by a portion of the state sales tax collections returned to the county.

Sheriff Ambulance (405-999-010) \$376,265 reserved to address capital and vehicle needs of the Ambulance service. It is supported by client fees and grants. No County funds are involved.

Solid Waste (410-999-010) \$3,144,687 reserved to provide for the closing and post-closure costs of county solid waste landfills.

Insurance Service (520-999-010) \$433,520 reserved is for possible future cost of the county's self-insured unemployment costs.

The Solid Waste beginning and ending restricted cash include the funds held solely for the closure and post-closure of the current landfill site and their use is restricted solely for those two purposes. The Solid Waste Fund 410, Landfill Closure 412 and Landfill Post Closure have been combined together in the C-4 financial statement. The 2014 activity of the Closure and Post-Closure portion of the Solid Waste Fund is as follows:

	<u>Closure</u>	<u>Post-Closure</u>	<u>Total</u>
Beginning Cash	\$1,709,237	\$814,702	\$2,523,939
Investment Income	21,509	1,010	22,519
Transfers in from S.W.	51,141	43,946	95,087
Interfund loan to 911 Emergency Comm.	<u>(475,337)</u>	<u>          </u>	<u>(475,337)</u>
Ending Cash	<u>\$1,306,550</u>	<u>\$ 859,658</u>	<u>\$2,166,208</u>

## **NOTE 2 – DEPOSITS AND INVESTMENTS**

It is the County's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and or the Washington Public Deposit Protection Commission. The County's investments are either insured and registered or held by the County or its agent in the County's name.

Investments are reported at cost, per County policy. Investments by type at December 31, 2014 were held as follows:

<u>Type of Investment</u>	<u>County's Own investments</u>	<u>Investments held by county as an agent for other local governments</u>	<u>Total</u>
L.G.I.P.	\$11,894,222	\$ 11,866,217	\$ 23,760,439
U.S. Bank	5,170,437	0	5,170,437
Registered Warrants			
Northport School	<u>45,304</u>	<u>0</u>	<u>45,304</u>
Totals	<u>\$17,109,963</u>	<u>\$ 11,866,217</u>	<u>\$ 28,976,180</u>

Funds not invested with Washington State Investment Pool (WSIP) are normally held in interest-bearing checking accounts, as money market funds or in long-term investments through U.S. Bank.

## **NOTE 3 - PROPERTY TAXES**

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by the county. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

Total for both the County and Road levies can not exceed \$4.05 per \$1,000 of assessed value. No other taxing district within the County could have its levy reduced as a result of the increased levy.

Stevens County's regular tax levy rate for 2014 was \$1. 573025 per \$1,000 on an assessed valuation of \$3,684,716,754 for a total Current Expense, Mental Health and Veterans levy of \$5,796,152. This includes a levy shift from Road to Current Expense in the amount of \$298,610.



The County is also authorized up to \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general government services (see additional limitation of \$4.05 combined levy).

The County road levy for 2014 was \$1.672993 per \$1,000 of an assessed valuation of \$3,020,932,887 for a total Road levy of \$5,054,000. This net amount reflects a levy shift from Road to Current Expense in the amount of \$298,610.

#### **NOTE 4 – INTERFUND LOANS AND ADVANCES**

There was one Interfund loan within County Funds in December of 2014 in the amount of \$475,337 from the Landfill Closure Fund to the Emergency Communications Fund. The purpose of the loan is to fund the replacement of radio communication equipment.

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 1/1/2014</u>	<u>New Loan</u>	<u>Repayment</u>	<u>Balance 12/31/2014</u>
E-911 Comm.	Landfill Closure	<u>\$ 0</u>	<u>\$ 475,337</u>	<u>\$ 0</u>	<u>\$ 475,337</u>

There was a loan in May of 2012 to the Mary Walker School District in the amount of \$1,184,000 to re-finance an existing bond. \$221,000 has been repaid, leaving an outstanding balance of \$963,000. One-half of the interest is paid on June 1<sup>st</sup> and December 1<sup>st</sup> and principal is paid on December 1<sup>st</sup> of each year. The remaining annual County collections will be as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$179,000	\$13,849	\$192,849
2016	185,000	12,041	197,041
2017	191,000	9,858	200,858
2018	201,000	7,127	208,127
2019	<u>207,000</u>	<u>3,871</u>	<u>210,871</u>
Totals	<u>\$ 963,000</u>	<u>\$ 46,746</u>	<u>\$ 1,009,746</u>

There was a loan in November of 2014 to the Northport School District in the amount of \$45,304 to refinance an existing bond over a two-year period. Monthly principal and interest payments of \$1,972.37 begin in 2015. The annual County collections will be as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 22,171	\$ 1,497	\$23,668
2016	<u>23,133</u>	<u>536</u>	<u>23,669</u>
Totals	<u>\$ 45,304</u>	<u>\$ 2,033</u>	<u>\$47,337</u>

#### **NOTE 5 – DEBT SERVICE REQUIREMENTS**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the County. The debt service requirements for general obligation bonds, revenue bonds and other debt, including both principle and interest are as follows:

<u>Year</u>	<u>G.O. Bonds</u>	<u>Revenue Debt</u>	<u>Other Debt</u>	<u>Total</u>
2015	474,831	0	178,243	\$ 653,074
2016	478,632	0	189,772	668,404
2017	34,507	0	193,486	227,993
2018	34,507	0	192,050	226,557
2019	34,507	0	190,464	224,971
2020-24	46,010	0	941,780	987,790
2025-29	0	0	378,753	378,753
2030-33	<u>0</u>	<u>0</u>	<u>156,439</u>	<u>156,439</u>
Totals	\$ <u>1,102,994</u>	<u>\$0</u>	\$ <u>2,420,987</u>	\$ <u>3,523,981</u>

Summary of the outstanding G.O. Bond principal and interest is as follows:

<u>Purpose of the Bond</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total</u>
2004 – Bank of America – Ambulance	\$ <u>184,196</u>	\$ <u>34,348</u>	\$ <u>218,544</u>
2005 – Martin Hall – Stevens County	\$ <u>237,143</u>	\$ <u>15,557</u>	\$ <u>252,700</u>
2005 – Martin Hall – Other Counties	<u>592,857</u>	<u>38,893</u>	<u>631,750</u>
2005 Total Issue	\$ <u>830,000</u>	\$ <u>54,450</u>	\$ <u>884,450</u>
2007 – S.W. Public Works Trust Loan	\$ 1,509,444	\$ 45,283	\$ 1,554,727
2012 – Commissioner’s Building	\$ 455,000	\$ 227,825	\$ 682,825
2013 – Fish Hatchery Complex	\$ <u>129,718</u>	<u>53,717</u>	\$ <u>183,435</u>
Total County Debt	\$ <u>3,108,358</u>	\$ <u>415,623</u>	\$ <u>3,523,981</u>

In 2004 a loan was secured through Bank of America for the purchase and remodeling of a building to serve as the operations site of the Stevens County Ambulance Service. The bond will be paid off by December 31, 2021.

Martin Hall is a juvenile detention facility located in Medical Lake, Washington. It is jointly owned and operated by a group of eastern Washington counties. Stevens County secured the original bond and the other counties secured mini-bonds to Stevens County for their portion of the bond. The bond and mini-bonds will be paid off by December 31, 2016.

In April, 2005 the Solid Waste Fund secured a Public Works Trust Fund loan in the amount of \$2,600,000 for the opening of a new sanitary landfill cell and closure of the present landfill cell. Interest at one-half percent (1/2%) per annum is due beginning July 1, 2006. Annual principal and interest payments began on July 1, 2007. This bond will be paid-off on July 1, 2025.

In December, 2011 the County purchased land and buildings adjacent to the Courthouse for \$600,000. A \$55,000 down payment was made at closing and in August of 2012 the contract to Avista was paid off. \$485,000 was borrowed through a bonding program administered by the Washington State Treasurer at a stated rate of 3.1473%. This bond will be paid off on December 31, 2032.

In June, 2013 the County re-purchased a fish hatchery and land originally given to the State of Washington. The interest rate is 3.00%. The debt is intended to be paid by the sale of fish to the

State Department of Fish & Wildlife. The fish are being produced through an educational program called Washington for Wildlife, a 501 c (4) federal non-profit organization. High School students from around the area are trained to raise and care for the fish, which are then sold to the Department of Fish & Wildlife for distribution into Washington lakes. The debt schedule above is the back-up payment plan if the fish production is insufficient to service the debt. In 2014 the fish sales amounted to \$24,348, which exceeded the required payment of \$10,389 by \$13,959.

The dollar value of compensated absences is calculated based on the December 31, 2014 hourly pay rates and balances of available vacation and compensated time for each fund.

The DSHS Advance is a working capital advance to N.E.W. Alliance Counseling Center by the Federal Government for the treatment of qualifying patients. The outstanding balance on December 31, 2014 is \$118,028.

#### **NOTE 6 – PENSION PLANS**

Substantially all Stevens County full-time and qualifying part-time employees participate in one of the five (LEOFF I, LEOFF II, PERS I, PERS II and PERS III) statewide local government retirement systems administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the County's financial statements. Contributions to the system by both the employee and the county are based upon the gross wages covered by the plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to Department of Retirement Systems, Communications Unit, P. O. Box 48380, Olympia, WA 98504-8380.

#### **NOTE 7 – OTHER DISCLOSURES**

The Equipment Repair & Replacement Fund (ER&R) negative balance of \$ (\$44,260) was covered by receipts related to December, 2014 that occur in January, 2015. At no time was the fund actually overdrawn.

#### **PRIOR PERIOD ADJUSTMENTS**

In the Informational Services fund \$14,764 of expenditures were overstated in 2013 and the correction is presented in 2014. There was a \$250 increase in petty cash in Solid Waste in 2013 that was not properly report. The remaining small amounts result from rounding to the nearest whole number.

#### **OPEB**

The County has a commitment to pay for post employment benefits for employees that belong to LEOFF 1. These benefits include medical, vision, dental and nursing care, etc. Seven retirees received \$ 42,740 in benefits during the year.

#### **DEFERRED COMPENSATION**

The County offers its employees four deferred compensation plans created in accordance with Internal Revenue Code Section 457. The two most common plans are administered by Greenco Services, who represents Lincoln Mutual and Valic Investments. The plans are available to eligible employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, qualifying emergency or to their estate upon the death of the employee. Stevens County also has a plan with Nationwide Retirement Solutions by agreement with NACO and the State of Washington.

## **CLAIMS AND JUDGMENTS**

The County has no other outstanding claims or judgments.

## **CONTINGENCIES AND LITIGATION**

In the opinion of management, the county's insurance policies are adequate to pay all known or pending claims.

The county participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under terms of the grants. County management believes that such disallowances, if any will be immaterial.

On February 24, 2014 the County received an invoice from the State of Washington Department of Retirement System for an audit adjustment of \$137,300.10 claiming that a PERS 1 retiree was not properly reported to them and they are seeking the return of all retirement funds paid to him. The County's insurance provider has retained legal counsel and the County currently objects to the audit assessment and are refusing to pay at this time.

## **LANDFILL CLOSURE AND POST-CLOSURE ESTIMATES**

Based on the engineering firm's estimate, the County has the following liabilities associated with the closure of its landfills. These amounts were updated to 2013 dollars are:

Closure costs of present operating landfill	10.8 million
Post-closure costs	<u>9.0 million</u>
Total	<u>\$19.8 million</u>

**Stevens County**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2014**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligations</b>						
251.11	Martin Hall	1/1/2016	1,220,000	-	390,000	830,000
259.11	Compensated Absences - Current Expense		422,882	-	71,152	351,730
259.11	Compensated Absences: NEWA Counseling		149,972	8,573	-	158,545
259.11	Compensated Absences - Elections		5,409	-	5,409	-
259.11	Compensated Absences - Weed Control		10,105	-	1,797	8,308
259.11	Compensated Absences - Emergency Communications		31,175	3,179	-	34,354
259.11	Compensated Absences - Sheriff Ambulance		15,096	-	1,662	13,434
259.11	Compensated Absences - ER&R		316,640	-	30,662	285,978
259.11	Compensated Absences - Informational Service		31,977	709	-	32,686
263.21	Closure of Present Landfill (Estimates)		10,800,000	-	-	10,800,000
263.21	Post-closure costs		9,000,000	-	-	9,000,000
263.61	Ambulance building to Bank of America	12/1/2021	207,863	-	23,667	184,196
263.81	NEWACS Advance to DSHS	12/31/2022	133,050	-	15,022	118,028
263.81	Solid Waste to Public Works Trust Fund	7/1/2025	1,646,667	-	137,222	1,509,445
263.81	Stevens County Fish Hatchery to Fish & Wildlife	12/1/2033	149,000	-	19,282	129,718
263.81	Commissioner building to State Treasurer	12/1/2033	470,000	-	15,000	455,000
<b>Total General Obligations:</b>			<b>24,609,836</b>	<b>12,461</b>	<b>710,875</b>	<b>23,911,422</b>
<b>Total Liabilities:</b>			<b>24,609,836</b>	<b>12,461</b>	<b>710,875</b>	<b>23,911,422</b>

The notes to the financial statements are an integral part of this schedule.

STEVENS COUNTY, WASHINGTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014

SCHEDULE 16

1 Federal Agency Name Pass Through Agency Name	2 Federal Program Name	3 CFDA Number	4 Other I.D. Number	5 EXPENDITURES			6 Foot- note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Department of Agriculture - Forest Service Division passed through Washington State Treasurer	Schools and Roads to States	10.665	n/a	\$ 195,490	\$ -	195,490	1
<b>Total U.S. Department of Agriculture</b>	<i>Total CFDA Number 10.665</i>			<b>195,490</b>	<b>-</b>	<b>195,490</b>	
U.S. Department of Housing & Urban Development passed through Washington State Department of Commerce Community Services and Facilities Division	Community Development Block Grant State's Program and Non Entitlement Grants in Hawaii	14.228	12-65400-008	63,898	-	63,898	1
U.S. Department of Housing & Urban Development passed through Washington State Department of Commerce Community Services and Facilities Division	Community Development Block Grant State's Program and Non Entitlement Grants in Hawaii	14.228	13-65400-013	31,345	-	31,345	1
U.S. Department of Housing & Urban Development passed through Washington State Department of Commerce Local Government and Infrastructure Division	Community Development Block Grant State's Program and Non Entitlement Grants in Hawaii	14.228	12-65400-046	19,510	-	19,510	1
<b>Total U.S. Department of Housing &amp; Urban Development</b>	<i>Total CFDA Number 14.228</i>			<b>114,753</b>	<b>-</b>	<b>114,753</b>	
U.S. Department of Justice - Drug Enforcement Administration passed through Washington State Patrol	Domestic Cannabis Eradication/Suppression	16.000	C120831FED	2,488	-	2,488	1
	<i>Total CFDA Number 16.000</i>			<b>2,488</b>	<b>-</b>	<b>2,488</b>	
U.S. Department of Justice - passed through Washington State Patrol	National Criminal History Improvement Program	16.554	2013-MU-BX-K004	14,604	-	14,604	1
	<i>Total CFDA Number 16.554</i>			<b>14,604</b>	<b>-</b>	<b>14,604</b>	
U.S. Department of Justice - Violence Against Women Office passed through Washington State Department of Commerce, Office of Crime Victims Advocacy, Community Services and Housing Division	Violence Against Woman Act - Prosecutor	16.588	2013-WF-AX-0055	16,020	-	16,020	1
	<i>Total CFDA Number 16.588</i>			<b>16,020</b>	<b>-</b>	<b>16,020</b>	

The Accompanying Notes To The Schedule Of Expenditures Of Federal Awards Are An Integral Part Of This Schedule.

STEVENS COUNTY, WASHINGTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014

SCHEDULE 16

1 Federal Agency Name Pass Through Agency Name	2 Federal Program Name	3 CFDA Number	4 Other I.D. Number	5 EXPENDITURES			6 Foot- note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Department of Justice - Bureau of Justice Assistance	Bulletproof Vest Partnership Program	16.607	2012BUBX12060702	-	2,502	2,502	2
	Total CFDA Number 16.588			-	2,502	2,502	
U.S. Department of Justice - Office of Community Oriented Policing Services	Public Safety Partnership and Community Policing Grants - Sheriff	16.710	2012UMWVX0175	-	49,546	49,546	2
	Public Safety Partnership and Community Policing Grants - Marcus	16.710	2012UMWVX0176	-	54,049	54,049	2
	Public Safety Partnership and Community Policing Grants - Northport	16.710	2012UMWVX0177	-	54,049	54,049	2
	Total CFDA Number 16.710			-	157,644	157,644	
<b>Total U.S. Department of Justice</b>				33,112	160,146	193,258	
U.S. Department of Transportation Federal Highway Administration Passed through State Department of Transportation	Highway Planning and Construction - Swenson South	20.205	STPR-B333(001)	59,393	-	59,393	1
	Total CFDA Number 20.205			59,393	-	59,393	
U.S. Department of Transportation - National Highway Traffic Safety Administration (NHTSA) passed through Washington Association of Sheriff and Police Chiefs	State and Community Highway Safety	20.600	n/a	\$ 3,475	\$ -	\$ 3,475	1
	Total CFDA Number 20.600			3,475	-	3,475	
<b>Total U.S. Department of Transportation</b>				62,868	-	62,868	
U.S. Dept of Health & Human Services-Passed through Washington State Department of Social & Health Services, Division of Child Support	Child Support Enforcement-Prosecutor	93.563	2110-80609	149,579	-	149,579	2
	Child Support Enforcement-Clerk Superior Court	93.563	2110-80609	32,319	-	32,319	2
	Child Support Enforcement-Court Commissioner	93.563	0763-15107	3,714	-	3,714	2
	Total CFDA Number 93.563			185,612	-	185,612	
U.S. Dept of Health & Human Services - Substance Abuse and Mental Health Services Administration - Passed through Regional Support Network Spokane County	Block Grants for Community Mental Health Services	93.958	13MHBG1570	40,172	-	40,172	1
	Total CFDA Number 93.958			40,172	-	40,172	

The Accompanying Notes To The Schedule Of Expenditures Of Federal Awards Are An Integral Part Of This Schedule.

STEVENS COUNTY, WASHINGTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014

SCHEDULE 16

1 Federal Agency Name Pass Through Agency Name	2 Federal Program Name	3 CFDA Number	4 Other I.D. Number	5 EXPENDITURES			6 Foot- note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Dept of Health & Human Services - Substance Abuse and Mental Health Services Administration - Passed through Washington State Department of Social & Health Services	Block Grants for Prevention and Treatment of Substance Abuse  Total CFDA Number 93.959	93.959	1163-27328	22,548	-	22,548	1
				22,548	-	22,548	1
				248,332	-	248,332	1
<b>Total U.S. Department of Health &amp; Human Services</b>							
Corporation for National and Community Service - Passed through Employment Security	AmeriCorps  Year Ending June 30, 2014 Year Ending June 30, 2015	94.006 94.006	K-2943 K-3473	5,100 44,100	-	5,100 44,100	1 1
				49,200	-	49,200	
<b>Total Corporation for National and Community Service</b>							
U.S. Department of Homeland Security - Passed through State Military Department	Emergency Management Performance Grants - FY 2014	97.042	E14-146	7,280	-	7,280	1
				7,280	-	7,280	
U.S. Department of Homeland Security - Passed through Spokane County	Homeland Security Grant Programs:  FY 2010 SHSP Planning FY 2011 SHSP Planning FY 2012 SHSP Planning	97.067 97.067 97.067	SDEM-1018 SDEM-1118 SDEM - 1318	50,000 51,401 20,994	-	50,000 51,401 20,994	3 3 1
- Passed through State Military Department	FY 2013 - SHSP Planning FY 2010 - SHSP FY 2011 - OPSG FY 2012 - OPSG FY 2013 - OPSG	97.067 97.067 97.067 97.067 97.067	E14-205 E14-176 E12-247 E13-234 E15-010	2,594 4,998 28,534 44,818 60,657	-	2,594 4,998 28,534 44,818 60,657	1 1 1 1 1
				263,996	-	263,996	
<b>Total U.S. Department of Homeland Security</b>				271,276	-	271,276	
				\$ 975,031	\$ 160,146	\$ 1,135,177	

**TOTAL FEDERAL AWARDS EXPENDED**

The Accompanying Notes To The Schedule Of Expenditures Of Federal Awards Are An Integral Part Of This Schedule.



**STEVENS COUNTY**

**January 1, 2014 to December 31, 2014**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the county's financial statements. Stevens County uses a cash basis for all funds.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal portion of program costs. Actual costs, including the county's portion, may be more than shown.

NOTE 3 – PRIOR YEAR EXPENDITURES

The amounts shown are expenditures from 2011, 2012 and 2013 that were not previously reported.

## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

### Stevens County January 1, 2014 through December 31, 2014

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Stevens County.

<b>Finding ref number:</b> 2014-001	<b>Finding caption:</b> The County did not have adequate internal controls to ensure it complied with time and effort requirements for its Homeland Security Grant Program.
<b>Name, address, and telephone of auditee contact person:</b> Tim Gray (509) 684-7511 215 S. Oak Street Colville, WA 99114	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>We recognize our shortcomings, have made some personnel changes and will better document all wage and benefit activities should this type of funding become available in the future.</i>	
<b>Anticipated date to complete the corrective action:</b> On-going	
<b>Finding ref number:</b> 2014-002	<b>Finding caption:</b> County's internal controls over financial statement preparation are inadequate to ensure accurate reporting.
<b>Name, address, and telephone of auditee contact person:</b> Tim Gray (509) 684-7511 215 S. Oak Street Colville, WA 99114	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>We recognize our shortcomings and are striving to improve the methods of information gathering and calculations to produce a better product. We recognize the importance to get proper BARS manual training to help us create an accurate report and will establish a better completion of task deadline schedule so that a proper review is completed in time to meet the filing deadline in the future.</i>	
<b>Anticipated date to complete the corrective action:</b> 05/30/2016	

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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Contact information for the State Auditor's Office	
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